INDIA'S UNADJUSTED TRADE BALANCE:

ITS EFFECTS ON THE INDUSTRIAL AND COMMERCIAL CONDITION OF THE PEOPLE.

I.

THE object of these notes is not controversial, but mainly to state and set in order the leading statistics of British Indian sea-borne trade, to call attention to the remarkable anomaly displayed in the balance of India's foreign commerce and to refer to some results of the anomaly. In doing this it will be highly convenient and peculiarly suitable to take as text or motive certain propositions comprised in the very comprehensive paper on *The Use of Import and Export Statistics*, first read before the Royal Statistical Society of Great Britain by Mr. Robert Giffen, and subsequently published in a collected volume of his *Essays*.

In opening the third section of that paper the writer says: "I propose to discuss the application of the import and export statistics to the problem of the balance of trade and the connected problem of the balance of indebtedness of a country." As the relation between the values of the imports and exports of India is quite unusual and abnormal, it is desirable to put aside for the present that conventional and market-place phrase "the balance of trade." The balance of the trading world's indebtedness to India is commercial and industrial; and we shall find that it is a balance never adjusted, an indebtedness never repaid to India.

One of the first broad facts noted by Mr. Giffen in his paper is that "an excess of imports is a very common thing." He then shows that comparing the aggregate imports and exports of the world — the year used for his comparison being 1878 for some countries and 1879 for others — the aggregate excess of imports was 162 million sterling. Carrying the comparison

to a wider range and quoting statistics compiled by Dr. von Neumann-Spallart, he shows that, in the seven years ending 1879, the aggregate excess of import valuations over export values was 1229 millions, or an average of 177 per annum; but as the German statist's figures do not appear to include treasure, it may be noted, in passing, that they do not show complete values. Thereupon Mr. Giffen records the general conclusion that "an excess of imports in the aggregate trade of the world is a permanent fact." But while this is the total result shown, he duly enters the figures of variation, and points out that while Europe, with the United Kingdom, exhibits an excess of imports amounting to 254 millions, the rest of the world shows an excess of 92 millions in exports. This leads up to the special anomaly which it is my purpose to set forth. In Mr. Giffen's statistics for Asia, the excess of India's exports over her imports for the year dealt with (1878–9) stands at the striking figure of £20,063,000. There is only one country that at all approaches this position in the table, and that is the United States. The excess of exports from this country is entered as £56,118,000. This, as will be shown, is a very exceptional instance; and as the total exports from India are little more than two-fifths of the value of those from the States, the comparative excess of exports in the latter case is very little more than India's excess. But this is a mere superficial and partial comparison between America's and India's excess of exports.

Mr. Giffen's immediate purpose was to expose popular fallacies regarding the "fair-" versus free-trade controversy, with which here we have nothing to do. Hence it was sufficient for him to deal with the six years ending 1881, which show an average excess of exports by America of 37 millions per annum. For the purpose of any substantial comparison between these or any two countries, it would be one of those elementary mistakes which Mr. Giffen exposes, were we to deal with such short periods. And for his own purpose the remark may be admitted, parenthetically, that his labour would have been lightened by taking the whole twenty-two years of America's trade figures given in his own tables. These at once disclose

that America's 37 millions annual excess of exports during the six years under notice shrink up to an annual average of only £5,535,270 for the twenty-two years' period of the whole table (1860–81 inclusive). We shall presently see how the figures for India compare within the same period. But this table (VIII) bears on its very face striking illustrations of the "disturbing influence of great economic events" referred to by Mr. Giffen (page 194). For do we not see writ large, in the excess of United States imports from 1861 to 1869, the effect of absorption of loan funds and war material from Europe under the strain of the great civil conflict; and again, in the abnormal excess of exports from 1874 to 1881, the repayment of special obligations, or, as Mr. A. J. Wilson puts it, "the redeeming of war-debts with great rapidity"?

As, in Mr. Giffen's paper and tables, the position of France is also shown, it will be convenient to state the totals here, in passing, by way of contrast. It appears, from the figures of the twenty years 1860 to 1880, that the imports of France exceeded her exports by nearly 299 millions, or exactly £14,-218,762 per annum. This seems to bring us back again to the broad general proposition quoted above, that "an excess of imports in the aggregate trade of the world is a permanent fact;" and to its converse, that an excess of exports in any particular country is an anomaly and reveals some abnormal circumstance.

Let us take, then, the same period of India's foreign trade transactions as that covered by the statistics of excess exports of the United States. The figures of the following table are drawn from the *Statistical Abstract relating to British India*,[1] and — what is of great moment in the review of our whole subject — these figures discriminate between merchandise and treasure. But it must be remembered that silver, of which by far the larger part of India's bullion imports consist, is as much a commodity as are the iron and piece-goods that come under the head of merchandise. It would be as great an error to exclude silver from the import figures of India as to exclude gold when computing the exports of Australia.

[1] Sixteenth number (1882).

SEA-BORNE TRADE OF BRITISH INDIA IN THE FINANCIAL YEARS 1860–81.

The amount of the Exports and the Imports during each of the undermentioned years is in millions sterling and decimals of millions.

		Exports.			Imports.		
		Merchandise.	*Treasure.*	*Total.*	*Merchandise.*	*Treasure.*	*Total.*
		£	£	£	£	£	£
1860	April 30.	27.96	.93	28.89	24.26	16.36	40.62
1861		32.97	1.12	34.09	23.49	10.68	34.17
1862		36.32	.68	37.00	22.32	14.95	37.27
1863		47.86	1.11	48.97	22.63	20.51	43.14
1864		65.63	1.27	66.90	27.15	22.96	50.11
1865		68.03	1.44	69.47	28.15	21.36	49.51
1866		65.49	2.17	67.66	29.60	26.56	56.16
1867 (11 ms.)	March 31.	41.86	2.43	44.29	29.04	13.24	42.28
1868		50.87	1.57	52.44	35.71	11.77	47.48
1869		53.06	1.40	54.46	35.99	15.16	51.15
1870		52.47	1.04	53.51	32.93	13.95	46.88
1871		55.34	2.22	57.56	34.47	5.44	39.91
1872		63.21	1.48	64.69	32.09	11.57	43.66
1873		55.25	1.30	56.55	31.87	4.56	36.43
1874		55.00	1.91	56.91	33.82	5.79	39.61
1875		56.36	1.62	57.98	36.22	8.14	44.36
1876		58.09	2.20	60.29	38.89	5.30	44.19
1877		61.01	4.03	65.04	37.44	11.44	48.88
1878		65.22	2.21	67.43	41.47	17.35	58.82
1879		60.94	3.98	64.92	37.80	7.06	44.86
1880		67.21	2.04	69.25	41.17	11.66	52.83
1881		74.54	1.44	75.98	53.09	8.99	62.08
		1214.69	39.59	1254.28	729.60	284.80	1014.40

£1,254,280,000 – £1,014,400,000 = £239,880,000.

£239,880,000 ÷ 22 = £10,903,636 per annum.

Here then we have, on the face of the official trade returns, the broad fact that in the twenty-two years under notice an aggregate amount of nearly 240 millions' worth was sent out of India for which no tangible material return can be traced — a fact to which there is no parallel in the commercial statistics of the world.

The question arises: Are there any additions or deductions

to be made on the import or the export side of the account that will affect the amount of the deficit?[1] There are; but these, in effect, go to swell the excess of the exports.

In the first place, a formal adjustment is obviously required; for while the figure of imports into India necessarily includes the cost of freight and the profits of the senders of the goods, these large items are not included in the exports as valued at the port of departure. In Mr. Giffen's paper, great pains are taken to compute the amount of the required correction; but in his method of dealing with the subject, the amount is put as a deduction from the imports. It seems to me that the more direct method is preferable, that of estimating what addition to the local figure of exports is required in order to place the valuation of them on a level with that of the imports. Mr. Giffen puts "the cost of conveyance" as the chief factor to be considered; but — apart from purely financial transactions presently to be considered — it is manifest that, besides freight, the profits on the exports at their destination should be credited to the exporting country in order to place them on the same level of valuation with the imports. From various considerations — the more obvious one being the trade profits actually gained by England and other independent countries, as shown partly by their excess of imports over exports — it would be tolerably safe to add, for freight and profits (including interest), 15 per cent to the valuation of Indian exports when shipped.[2] This would

[1] A prior query may be raised: Can the valuation of Indian exports and imports be relied on as correct? To this I would reply: (1) That in the earlier portion of the period there were both under- and over-valuations; these were pointed out by Mr. Robert Knight, myself, and others; but (2) the *under*-valuations of the exports were the preponderating figure; and, (3) Mr. J. S. O'Conor, the official reviewer of the trade returns, considers that in late years the valuations have been fairly accurate and that on the whole the totals are substantially correct.

[2] I am aware it is sometimes claimed that, as India should pay for the cost of carrying her goods away (inward freight being already necessarily included in the figures of import value), therefore cost of outward freight is held to account for a considerable portion of the excess of her exports. One writer, referring to the figures of this period, makes an estimate of 10 per cent for freight and private remittance to England (two very different factors) and treats these items as *deductions* from India's exports! It is not needful for our present purpose to work out this branch of the question, and certainly that method does not accord with Mr. Giffen's view of it. He

make the excess value of Indian exports during the twenty-two years, 1860–1881, 428 millions.[1] To obviate all doubt, let ten per cent be only added; that will leave the deficit 365 millions, or nearly 17 millions per annum.

But there is another more definite addition required to India's unsettled balance, namely, the public debt incurred abroad (almost all in England) during the period. It is difficult without special official aid to state the exact sum of this factor. But it is plain that during the period a total of $83\frac{3}{4}$ millions was added to the debt of India. Of this amount, one account before us gives $27\frac{1}{2}$ millions as incurred in England; to which may properly be added, as affecting the imports of 1860, some portion of over eight millions loan, taken up in England in 1858–59, making say 30 millions; though from the *Statistical Abstract*, it would appear that $32\frac{1}{8}$ millions were added to the debt in England during the years 1872 to 1881. Then it must be remembered that, of the loans issued in India, a large proportion was supplied by English bankers and investors; so that, of the total 83 millions incurred during our twenty-two years, quite 50 millions have been supplied from Europe.[2] Again, in the same period there has been a large addition to the railway and public works debt of India. The increase of railway debt in the period

takes great care (section 4) to estimate the share due to England for the "service of conveyance." On his method this plainly requires an *addition* to be made to the Indian export values: and that is the course that has long been taken by myself and others in dealing with Indian trade statistics. It is true that, according to the formula given by Mr. Giffen (foot-note p. 207), "A non-carrying nation . . . ought to show in its accounts an equality between imports at the place of arrival and exports at the place of departure." India is exactly an instance of "a non-carrying nation;" but, as pointed out in the text, such formal equality in the accounts between imports and exports is *per se* impracticable.

[1] Fifteen per cent of 1,254,280,000 = 188,142,000. 188,142,000 + 239,880,000 = 428,022,000.

[2] A direct confirmation of this estimate of Indian loan funds advanced by English investors or transferred to Europe in the period, especially as regards the latter portion of it (1873–1881), is afforded by the official returns, which show nine millions' worth of "rupee paper" as transferred from India to England in those seven years. This sum would go back through the imports into India, either as specie or merchandise, and therefore must be deducted from the figure of imports, as not constituting any commercial recompense for exports; or it should be added to exports, as additional debt due to India.

was close on 47 millions. Most of this amount passed through the import valuations in the shape of railway material, *etc.;* but we need not deduct this from the import totals, or add the same to the balance of exports, since it exists (most of it) in the productive form of railway lines. Thus the account of India's commercial transactions with the outer world for the period we have taken will stand thus:

Exports of British India, 1860–81 *inclusive.*		
Merchandise and treasure		£1,254,280,000
Add ten per cent as representing freight and trade profits claimable		125,430,000
Add for public debt taken up in Europe and local debt transferred from India		50,000,000
		£1,429,710,000
Imports, same period.		
Merchandise	£729,600,000	
Treasure	284,800,000	£1,014,400,000
India's commercial and industrial deficit during the twenty-two years		£415,310,000
Or, per annum		£18,877,727

It is appropriate to notice that both the earlier and later portions of the period under notice were peculiarly affected by "the disturbing influence of great economic events." For at least two of the earlier years, the demands of the Home government on the Indian treasuries were almost suspended, debt being incurred instead; while, during the first five or six years, the exceptional value given to Indian produce by the American war enhanced the figure of the exports more rapidly than that of imports. On the other hand, the large influx of railway capital swelled the figure of imports, especially of bullion, this for the time reducing and almost suspending India's chronic trade deficit. Again, during the later years, the cessation of railway payments in, and the heavy enhancements of "Home charges" paid out, have swelled the deficit.

It may be well to look at a more recent period of Indian trade returns, for this will bring us more directly face to face

with the great fact of India's chronic commercial deficit. Such returns are given, in very compendious form, in a recent official review[1] of which Mr. J. S. O'Conor is the editor. He sets out the excess of exports (taking treasure into account on both sides) in the ten years, 1873–83. The list begins with $19\frac{2}{5}$ crores[2] of rupees in 1873–4; but the years vary — owing to causes well known to those who are familiar with the subject — from $10\frac{4}{5}$ in 1877–8 to nearly 21 crores in 1882–3. The total excess of exports in the ten years is shown to be 182,16,92,440 rupees; which may be rendered in sterling either at the conventional ten rupees to the pound, which gives £182,169,244, or, if *The Economist's* rate (of twelve rupees) be applied, the deficit shown is the sufficiently astounding sum of £151,807,700, or over 15 millions sterling per annum, for which India has no material return — a balance of trade to which it is bitter irony to apply the conventional phrase "in her favor," for it is a balance that is never adjusted. Be it noted that these 15 millions represent the minimum, without the adjusting enhancements of the export figures which are really required, as already shown; and, therefore, that 15 millions per annum represent a fact beyond all question or cavil.

As still later figures are now available, it may be well to add them. They cover the four years ending with March, 1887, and are as follows:

EXPORTS FROM BRITISH INDIA.

Years ending March 31st.	*Merchandise.*	*Treasure.*	*Total.*
	Rs.	*Rs.*	*Rs.*
1883–4	88,17,60,902	1,01,03,674	89,18,64,576
1884–5	83,25,52,921	1,97,06,300	85,22,59,221
1885–6	83,86,11,693	1,10,82,310	84,96,94,003
1886–7	88,48,10,354	1,72,04,261	90,20,14,615
			349,58,32,415

[1] Review of the Trade of India, 1885–6.

[2] The Indian numeration is —

1,00,000, *i.e.* one lakh = 100,000.

1,00,00,000, *i.e.* one crore = one hundred lakhs = 10,000,000.

IMPORTS INTO BRITISH INDIA.

Years ending March 31st.	*Merchandise.*	*Treasure.*	*Total.*
	Rs.	*Rs.*	*Rs.*
1883–4	55,27,93,484	12,87,79,663	68,15,73,117
1884–5	55,70,30,718	13,88,81,918	69,59,12,696
1885–6	55,63,19,552	15,46,70,808	71,11,90,360
1886–7	61,81,19,608	11,04,83,224	72,86,02,832
			281,72,79,005

Excess value of exports for the four years = *Rs.* 67,85,53,410 [1]
" " " " per annum = *Rs.* 16,96,38,352

At the conventional rate of *Rs.* 10 to the £ this = £16,963,835 } per annum.
" *The Economist's* " " *Rs.* 12 " " " " = £14,136,529
" the actual (*i.e.* 1*s.* 5*d.*) " " *Rs.* 14 " " " " = £12,117,025

In proceeding to point out of what this unredressed balance consists, it may be assumed that this part of my subject is so far a matter of common knowledge that it need not be dwelt upon at any length. During the period of twenty-two years examined above, the sums received by the Secretary of State, for his bills drawn on the Indian treasuries, present an aggregate of rather over 207 millions sterling (about 350 crores of rupees). This aggregate would have been 30 millions more, had not Indian loans to that extent been taken up in England. Moreover the greater part of the 47 millions of railway capital subscribed in the period, being paid into the Secretary of State's account in London, kept down his drafts by that amount; but, as we have said, most of that railway capital is represented in the imports of the period, and so cannot be counted again as representing part of the deficit. For the rest of the 415 millions, — an amount nearly as much again as the sum of the Council drafts, — explanation must be sought in the remittances of the Indian government's (European) servants, civil and military, and of soldiers; in the profits of merchants and

[1] In this period over ten millions sterling has been added to public debt borrowed on England; and that sum may be regarded as, in effect, an addition to the excess of exports as shown above.

other European traders (other than freight on exports); in profits on factories and other industrial enterprises; and in the numberless ways in which Great Britain, powerful in its command of capital, inevitably lays its dependency, weak in its impecuniosity, under contribution.

Though the topic does not strictly pertain to the question before us, it is pertinent here to remind Englishmen that by far the greater part of India's deficit comes to swell the surplus of the United Kingdom's annual profits and to sustain those accumulations to which British statisticians often point with excusable pride. Let any one accustomed to trace the streams of profit that flow towards the seats of capital and the centre of political power, consider fully and fairly the vast balances shown in the preceding tables, — 400 millions in the twenty-two years and 150 to 180 in the ten years, — and some just realization, some clearer conception of the value of India to England may thereby be obtained.

II.

And now, for any student of social statistics, the practical question that arises out of the facts stated is: What effect is produced on the condition of the people of India by this excess of exports, this balance of trade that is never settled, this continued drain of resources never compensated from without? The force of this question becomes much accentuated when we take into account the low industrial efficiency of India as compared with Europe or the United States, where we find highly organized labor and marvellous mechanical forces. Moreover, the deficiencies of India in the materials of modern productive power contrast strongly with the enormous stores of coal and iron possessed by Great Britain and the United States, the latter having, also, vast available resources of virgin soil.

It must be remarked that, while a considerable portion of India's unrecompensed exports is the result of voluntary payment of interest on capital and for skilled management, the major portion has to be yielded up under the compulsion of

administrative sway. This is represented in the 14 to 18 millions' worth of the Secretary of State's annual drafts, and these are cashed directly from the public treasuries of India. Here, in order to bring out the special economic, pecuniary, and industrial effects on the people of India, following from the unrequited outlay of such a large portion of their annual resources, it may be permitted to quote at some length what was said by one of the earliest writers on this problem of social statics, (a writer now little known,) Colonel Sir George Wingate, R. E.:

Taxes spent in the country from which they are raised are totally different in their effect from taxes raised in one country and spent in another. In the former case, the taxes collected from the population at large are paid away to the portion of the population engaged in the service of government, through whose expenditure they are again returned to the industrious classes. They occasion a different distribution, but no loss of national income (capital). And hence it is, that in countries advanced in civilization, in which the productive powers of men are augmented by mechanical contrivances and a judicious use of the powers of nature, an enormous taxation may be realized with singularly little pressure upon the community. But the case is wholly different when the taxes are not spent in the country from which they are raised. In this case, they constitute no mere transfer of a portion of the national income from one set of citizens to another, but an absolute loss and extinction of the whole amount withdrawn from the taxed country. As regards its effects on national production, the whole amount might as well be thrown into the sea, as transferred to another country, for no portion of it will return from the latter to the taxed country in any shape whatever. Such is the nature of the tribute we have so long exacted from India. And the burden of a tribute is aggravated in proportion as the tributary country is backward in civilization and possesses few mechanical and scientific aids for augmenting its productive power; for the net income of such a country, or the surplus of the gross produce of the nation's industry, over and above the quantity required to replace the amount consumed in production, must necessarily be small. A country in the high state of industrial development of our own could probably pay in tribute one-half of its whole taxation more easily than India could pay one-tenth, which was not far from the proportion that the tribute bore to the gross revenues before the outbreak of the Mutiny. . . . Let the reader endeavour to

picture to himself what the present condition of India would have been, had the eighty or ninety millions of Indian taxes, which have been transferred to this country in the present century, been spent in India upon reproductive public works, calculated to augment the producing powers of that country. India would long ago have been penetrated in every direction by roads, canals, and railroads. Agricultural produce would, by means of the facilities of transit thus afforded, have been drawn from the remotest parts of the interior to the seaboard, for export to foreign countries; and those regions which now cannot import, because they cannot export, would have become consumers of foreign commodities in exchange for the produce thus sent away. It is probably a poor and inadequate conception to suppose that the net surplus of Indian industry beyond the cost of production, as distinguished from the gross production, would by these means have been doubled or trebled. And as this net surplus forms a fund by means of which a country obtains its imports of foreign commodities, it is not unreasonable to infer that the exports and imports of India would have been double or treble what they are now.[1]

The argument to-day is far stronger than when the above lines were written. Let the reader consider what the fivefold amount drawn away in later years would have done in the form of productive public works. The only qualification, if such it can be considered, of Col. Wingate's discouraging statement of the case is that, since the period at which he wrote, certain special "mechanical and scientific aids for augmenting its productive power" have, in spite of the increase of the annual drain, been provided for India, in the railways, irrigation works — these last to a very moderate extent, — some few cotton factories, and the tea and coffee industries; but, as regards the mass of its agricultural population, the situation is unchanged.

One of the most far-reaching and most cramping effects of the large increase in the uncompensated exports of late years — which mainly represent the increased pressure of the Home charges — is the restriction of the imports of silver into India, as compared with the increase in population and the largely extended commercial transactions. This condition has been more obvious since the cessation of the large payments on

[1] Wingate, Our Financial Relations with India (1859).

guaranteed railway accounts, which fell off and almost ceased about 1872–3. Since then, as pointed out already in 1876 by Mr. Goschen's committee, the increased volume of the Secretary of State's drafts, by superseding silver, has largely reduced the imports of bullion into India. The following table, compiled from official figures, exhibits this:

MOVEMENTS OF TREASURE INTO AND OUT OF INDIA.

1863 TO 1872 INCLUSIVE.		1873 TO 1882 INCLUSIVE.	
Imports.	*Exports.*	*Imports.*	*Exports.*
£	£	£	£
20.51	1.11	4.56	1.30
22.96	1.27	5.79	1.91
21.36	1.44	8.14	1.62
26.56	2.17	5.30	2.20
13.24	2.43	11.44	4.03
11.77	1.57	17.35	2.21
15.16	1.40	7.06	3.98
13.95	1.04	11.66	2.04
5.44	2.22	8.99	1.44
11.57	1.48	11.32	1.10
162.52	16.13	91.71	21.83
162.52		91.71	
16.13		21.83	
£146,390,000 Net Imports.		£69,880,000 Net Imports.	

This table shows an excess import of treasure of £76,510,000 in the earlier period over the later period, or say a diminution of nearly half in the later period.

The effects of an inadequate currency in depressing prices and checking industry are familiar enough to publicists; but the influence of this adverse condition, as it applies to the circumstances of India, will be more fully appreciated by the study of a remarkable passage in J. S. Mill's *Political Economy* — the concluding portion of his chapter on the "Distribution of the Precious Metals." [1]

[1] "Before closing this discussion, it is fitting to point out in what manner and degree the preceding conclusions are affected by the existence of international pay-

The late Mr. Bagehot, also, though he at first treated too much in the conventional fashion the remarkable phenomenon of the supersession or large reduction of silver imports into India by reason of the increase of the Secretary of State's demands, afterwards, in two special articles in October, 1876,[1]

ments not originating in commerce, and for which no equivalent in either money or commodities is expected or received; such as a tribute, or remittances of rent to absentee landlords or of interest to foreign creditors, or a government expenditure abroad, such as England incurs in the management of some of her colonial dependencies.

"To begin with the case of barter. The supposed annual remittances being made in commodities, and being exports for which there is to be no return, it is no longer requisite that the imports and exports should pay for one another: on the contrary, there must be an annual excess of exports over imports, equal to the value of the remittance. If, before the country became liable to the annual payment, foreign commerce was in its natural state of equilibrium, it will now be necessary for the purpose of effecting the remittances, that foreign countries should be induced to take a greater quantity of exports than before: which can only be done by offering those exports on cheaper terms, or in other words, by paying dearer for foreign commodities. The international values will so adjust themselves that either by greater exports, or smaller imports, or both, the requisite excess on the side of exports will be brought about; and this excess will become the permanent state. The result is, that a country which makes regular payments to foreign countries, besides losing what it pays, loses also something more, by the less advantageous terms on which it is forced to exchange its productions for foreign commodities.

"The same results follow on the supposition of money. Commerce being supposed to be in a state of equilibrium when the obligatory remittances begin, the first remittance is necessarily made in money. This lowers prices in the remitting country, and raises them in the receiving. The natural effect is that more commodities are exported than before, and fewer imported, and that, on the score of commerce alone, a balance of money will be constantly due from the receiving to the paying country. When the debt thus annually due to the tributary country becomes equal to the annual tribute or other regular payment due from it, no further transmission of money takes place; the equilibrium of exports and imports will no longer exist, but that of payments will; the exchange will be at par, the two debts will be set off against one another, and the tribute or remittance will be virtually paid in goods. The result to the interests of the two countries will be as already pointed out: the paying country will give a higher price for all that it buys from the receiving country, while the latter, besides receiving the tribute, obtains the exportable produce of the tributary country at a lower price." J. S. Mill, Principles of Political Economy, book iii, ch. xxi, § 4.

This has always seemed to me one of the most remarkable instances of J. S. Mill's synthetical reasoning. The circumstances affecting India which are described in the present paper had, at the time Mill wrote, scarcely arisen; the yearly "tribute" from India was a trifle compared with what it has since become; but the present effect on prices and industry in India corresponds precisely to his forecast.

[1] Articles on the Depreciation of Silver, *etc.*, first printed in *The Economist*, and afterwards reprinted. See reprint, pp. 84–9.

traced out the consequent restriction of the currency in India and the benumbing influence on prices, profits, and industry.

To popular apprehension the large amounts of specie which still flow into India, in spite of the artificial impediment caused by Council bills, seem inconsistent with the complaint of inadequate currency. But this arises from not considering the figures carefully enough. Mr. O'Conor shows, for the five years 1879–83, a net import of bullion into India of 428,-866,627 rupees. Taking the population at 250 millions (for the native states must here be included), that shows only *Rs.* 1·733 per head of the population for the five years, which is only 0·34 (about 5½ *d.*) per head per annum: and as a considerable portion of the treasure was gold, this small figure is more than would be felt in the currency.

On the surface and at first sight this peculiar check to India's industrial progress is not apparent. It is, indeed, sometimes eagerly contended that, since the fall in the exchange value of the rupee, buyers for export have been able to offer more rupees to the producer for his crops. That may be so in localities readily accessible by railway from the great ports; but to how small a part of the vast peninsula does the condition apply? And *whence* are these rupees obtained? Why, from the government treasuries; which in turn obtain the rupees mainly from the cultivators themselves, who, having to provide the rupees at certain fixed dates, must sell their crops at the local price they can secure immediately the produce is ready. But as prices are ruled by this condition of a restricted currency, no rise in price can be secured, industry receives no stimulus, and no accumulation is possible.

On the surface of things there is also abundant evidence, not only of the impecuniosity of India, but of the downright poverty and chronic privations of its people. It is evident that, notwithstanding the very low standard of subsistence to which the masses are accustomed, even that poor minimum is not attained. Two such different authorities as the late Lord Lawrence, and Dr. (now Sir) William Hunter, the chief collector and collator of Indian statistics, agree in the statement

that tens of millions of people go through life without ever being adequately fed. On the mere apprehension of deficient harvest, relief works have to be held ready in order to avert disease and mortality by starvation. This normal condition of poverty has received irresistible confirmation by the destruction of life by famine to the extent of sixteen millions since 1865. There is no need to enlarge on these painful facts.[1]

It may be asked what remedial measures are proposed. The object of this paper, as was stated at the outset, is not to suggest remedies, but to draw attention to the broad fact that whereas, as is shown by Mr. Giffen, under normal conditions the import values of a country largely exceed its export values, the reverse of this condition obtains in the case of British India. If I am to suggest any methods of modifying the anomaly, I disclaim any wish to raise political questions. I do not go so far as to press for adoption of the measures of direct redress proposed by the clear-headed Wingate, which go to the root of the matter.[2] There is a partial though practical

[1] The evidence regarding them is recorded in the Report of the Famine commission (1880); and in a remarkable treatise by Mr. Dadabhai Naoroji of Bombay, on The Condition of India, part 3, vol. xiv, of the *East India Association Journal.* In this latter publication, which, besides abundant statistics, comprises certain special correspondence with the India office, the whole subject of the material condition of the Indian population is exhaustively examined.

[2] This is what Sir George (then Major) Wingate said, writing in 1859: "It would be true wisdom, then, to provide for the future payment of such of the Home charges of the Indian Government as really form tribute, out of the Imperial Exchequer. These charges would probably be found to be the dividends on [old] East India Stock [those have since been capitalized at double their nominal amount and *debited* to the Indian finance account]; interest on Home debt; the salaries of officers and establishment and cost of buildings connected with the Home department of the government of India; furlough and retired pay to members of the Indian military and civil services when at home; charges of all descriptions paid in this country (England) connected with British troops serving in India, except for the purchase of stores to be sent to India. . . . In fine, the tribute is made up of such items of charge, connected with the government of India, as are spent in this country (*i.e.* England), and for which India receives no material equivalent in any form." Our Financial Relations with India, pp. 60, 61.

It is scarcely needful to remark that not one of these obligations has been accepted by the British Treasury. Every item relating to India — though paid *in England* now to the extent of twelve to fourteen millions a year — is debited to Indian account: so that the Indian empire does not cost the British taxpayer a single

method which, by reference to the period of 1859 to 1868, and in less degree up to 1872, would be found to go far towards reducing the overwhelming difference between exports and imports under which India now helplessly struggles, would replenish her currency, would profitably employ millions of now half-employed and half-fed laborers, would stimulate industry and internal trade, would relieve the strain under which mercantile operations, both internal and external, are now carried on, and, above all, would tend to increase the food supply of the people and give them a chance to raise their standard of living. This method, which is so simple and obvious that it may seem an anti-climax when stated, is the vigorous prosecution in India of *productive* public works; not railways alone, — the relative value of which to India has been greatly over-rated, — but water storage, irrigation, harbors, and other works that can mainly be carried out by the people and from the materials of the country. This seems — and *is* — simple; why then is it not done? If this alone would not make India prosperous in the European sense of the term, it would at least arrest the deterioration and impoverishment now going on as an inevitable concomitant of that chronic commercial indebtedness of the outside world to India, the figures and facts of which are set forth in this article.

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Addendum. With regard to the amount added to the Indian debt held in England in the twenty-two years covered by the table on page 672, I have obtained, since the above pages were put in type, more precise figures. The net amount of sterling debt taken up in England in the years 1860–81 was £45,270,215. As to the "rupee paper" transmitted to England and "enfaced"

shilling. With such jealousy is this one-sided system of finance guarded, that when it has been pointed out that the British Treasury might, at least, give its guarantee on Indian loans raised in England — which would reduce the annual charge by two or three millions without costing the Treasury anything — such proposal has been scouted by official politicians of all parties.